



NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION

The Voice of Rural Telecommunications

4121 Wilson Boulevard, Tenth Floor

Arlington, VA 22203

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April 1, 2002

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
445 12th Street S.W., TW-A325
Washington, D.C. 20554

Re: *Ex Parte* Notice
Response to Follow Up Questions from the Federal-State Joint Board *En Banc*
Hearing on Comprehensive Separations Reform, In the Matter of Jurisdictional
Separations Reform and Referral to the Federal-State Joint Board Options for
Comprehensive Separations Reform, CC Docket No. 80-286.

Dear Mr. Caton:

This letter is in response to written questions from Commissioner Joan H. Smith, Oregon Public Utility Commission and a member of the joint board, directed to panelists who participated in the *en banc* on February 13, 2002.

Question 1

Are companies continuing to gather data or performing calculations necessary to update all of the "frozen" factors -- both categorization and allocation factors? If not, how would the long-term impact of the freeze or a decision to extend it be quantified by the Joint Board or the Commission? (What I heard informally is that they are not. Then what?)

Answer

Due to the freeze in "factors," carriers have been able to avoid the cost of traffic and cost studies and many have chosen suspend capturing and compiling this information during the freeze. Even though many companies are not currently gathering the data necessary to update categories and allocation factors; it will be possible to perform traffic studies and/or full blown cost studies should the need arise. While such studies are time

consuming and costly; they are feasible. Thus, it will be possible to calculate the impact of keeping, modifying or abandoning a freeze.

Question 2

If a company's study area has a mix of exchanges with effective competition and without effective competition, how would the company subdivide the study area and remove costs for the competitive exchanges? (It is likely part 64 is not adequate to accomplish this. Paul Hartman also questioned the future efficacy of part 64.)

Answer

In my mind the question is not how to split the cost, it is how to see that rural communities continue to get comparable service with or without competition. If the focus is changed to what services are made available in each study area then ways can be found to devise cost and allocators that will work.

First of all, the term effective competition is not defined. What does effective competition mean? How many providers, marketing equivalent services in the same market, are needed to make a market fully competitive? Is effective competition in the public interest in high-cost areas where support is needed to have service at all? Why isn't it good public policy to have a single provider delivering high-quality services that are reasonably comparable to services offered in urban areas at reasonably comparable prices?

Assuming that there are both competitive and non-competitive exchanges in the same study area, is there a difference in the services or prices offered in competitive exchanges versus non-competitive exchanges in the same study area? Perhaps the regulated exchanges need to mirror the competitive ones. This gives everyone comparable service, but there is a question about sufficient revenues. If the revenue requirement defines sufficient revenue, then there must be sufficient support to make up for any shortfall resulting from comparability. Otherwise, in the long run service will deteriorate and comparability will be lost.

It is not clear that partitioning an ILEC operation into competitive and non-competitive exchanges, will be beneficial. For instance, all of the cross subsidy questions will be raised; including fully allocated versus incremental costs. Furthermore, it does not make economic sense for small community-based ILECs, which lack economies of scale, to bifurcate their costs and operations. Such an approach will only increase costs without corresponding public benefits.

What is wrong with a bedrock solid commitment to the viability of the rural ILEC, as long as the ILEC continues to do a good job of serving the community. Competition is not the problem. The assurance of survivability for those who brought universal service to their communities and continue to offer high quality modern services at comparable

prices is good for the public. Why shouldn't those who have built today's service, when no one else would, have the inside track as long as they continue serve well.

In accordance with the FCC's rules, an original and two copies of this letter are being filed with the Secretary's office. If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

/s/ R. Scott Reiter

R. Scott Reiter

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Specialist

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cc: Sharon Webber